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TAGS: ENRG EPET TU

SUBJECT: EU NABUCCO COORDINATOR SAYS TURKEY MUST ACT NOW ON
NABUCCO

REF: ANKARA 0316

Classified By: Ambassador Ross Wilson for reasons 1.4 (B) and (D)

¶1. (C) Summary: On February 14, EU Coordinator for Nabucco Jozias van Aartsen told us he would deliver a firm message to his Turkish interlocutors (which included Prime Minister Erdogan) that Turkey must act now to save the Nabucco pipeline. He said he has a six-month time horizon for progress, driven by his deadline to make a recommendation to the EU Commission on whether to continue to prioritize Nabucco or give competing gas pipeline projects precedence. He said Turkey's insistence on keeping 15 percent of transited gas at a netback price is a non-starter with Nabucco consortium members. According to the Dutch, van Aarsten's meeting with Guler was tense because Guler was unwavering in his support for Turkey's rights to transited gas. By contrast, Prime Minister Erdogan appears to have understood that Turkey's position may not be workable. Separately, Ambassador followed up with Erdogan's diplomatic advisor to say that the Europeans and the Azeris are sympathetic to Turkey's need to get gas out of Nabucco but that Guler's formula is not working. We will make this point to others as well. Van Aartsen mentioned the EU is in contact with Chevron and Exxon in Kazakhstan regarding the possibility of associated gas for Nabucco. End summary.

Guler Defends the 15 Percent Formula

¶2. (C) Ambassador relayed his latest conversation with Guler to van Aartsen. In short, Guler expressed pique at various Nabucco partners for pursuing gas supply discussions with Russia and Iran without consulting Turkey. Guler had claimed that Nabucco partners' were initially cool to Turkey's demand for 15% offtake of transited gas at a netback price, but now were warming to the formula as they come to understand Turkey's need for gas. Ambassador advised van Aartsen that he told Guler we hear the opposite from European contacts about the prospects for 15% reserve formula with netback pricing and that it appears to us that this formula is now an obstacle to Nabucco. Driving too hard a bargain with Azerbaijan on transit could scuttle the Nabucco project and cost Turkey its strategic goal of lessening

reliance on Russian gas. Guler had countered by saying "we have reached a point of no return" on Nabucco, the project will go forward.

EU Rejects the 15 Percent Gas Reserve Formula

¶3. (C) Van Aartsen told us the 15% off-take formula is a non-starter with Nabucco Consortium members and Turkey knows it. He said commercial arrangements and transit issues must be finalized soon if the project is to go ahead. He will make a recommendation to EU Energy Commissioner Piebalgs in six months on whether to continue to support Nabucco. Van Aartsen understands that a key Turkish requirement for Nabucco is that they get additional gas supply. He recognizes there must be a commercially viable way to get Turkey gas but believes the 15% gas reserve formula is not it.

Erdogan Understands the 15 Percent Gas Reserve Formula is a Problem

¶4. (C) The Netherlands Ambassador to Turkey Marcel Kurpreshoek gave the Ambassador a read out of Van Aartsen's meetings with the GOT.

-- Energy Minister Guler: The meeting with Guler was tense. There were 30 or more people in the room, some of whom held their heads in their hands as Guler took a hardline on Turkey's formula to offload 15% of transited gas at a netback price. Guler pressed his luck by telling van Aartsen "you need us more than we need you." Van Aartsen very clearly articulated that the Turkish formula is untenable and that Nabucco may not happen without a more commercially viable Turkish position. Following the meeting, the Ministry of

Energy's International Relations Department Head Cigdem Hatunoglu raised concerns to us about van Aartsen's knowledge of the project and his commitment. Hatunoglu said van Aartsen appeared unpleasantly surprised to hear Turkey's proposal to speed up the construction of the Nabucco pipeline by starting it at Ahibos (a pumping station just outside Ankara). He rejected the suggestion in favor of construction starting in Azerbaijan. She added that van Aartsen will become the mayor of The Hague in March or April, so his future involvement with Nabucco may be limited.

-- Prime Minister Erdogan: The meeting atmosphere was better. Guler attended and made some early gestures to defend Turkey's gas offtake formula but grew quieter as the meeting continued. Erdogan appeared to come around to the understanding that there is a problem and Turkey's proposed offtake formula won't work.

-- Lunch with Ahmet Davutoglu, Senior Foreign Policy Advisor to the PM and others: Van Aarsten again reiterated the EU's support for Nabucco and the need to move away from Turkey's offtake formula. Ambassador will follow up with Davutoglu.

Kazakhstan Gas Supplies for Nabucco?

¶5. (C) Van Aartsen said he and his staff have been talking to Chevron and Exxon in Kazakhstan. He said the companies are re-injecting gas into oil fields for lack of other commercial opportunities. Van Aartsen posited that 10 bcm from Kazakhstan fields could be available for Nabucco. (Note: He did not explain how gas would get from offshore Caspian fields to the start of the Nabucco line. End note.) According to van Aartsen, Chevron and Exxon said they had not been approached by the U.S. government to make this gas available for Nabucco.

¶6. (U) The press reported that van Aartsen may return to Turkey in three weeks, i.e., on or around March 6.

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